



City of Cleveland
Frank G. Jackson, Mayor

Department of Community Development
Tania Menesse, Director
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Cleveland, Ohio 44114-1070
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January 18, 2019

John Hopkins
Executive Director
Buckeye Shaker Square Development Corporation
11802 Buckeye Road
Cleveland, Ohio 44120-2621

SUBJECT: Cleveland New Homes LP Default Letter & On-Site Monitoring Findings

Dear John,

Please be advised that this letter shall serve as official notice of default in the Buckeye Homes I Project (Contract Numbers 49677 & \$475,000 HTF HOME Loan Contract No. 49728) and the Buckeye Homes II Project (\$175,000 HTF HOME Loan Contract No. 52211 and \$125,000 HTF CDBG Loan Contract No. 52210). The notice of default has been initiated in response to the numerous findings described below related to the recent monitoring of Cleveland New Homes LP.

Unless the events of default are cured in accordance with the Loan Documents and prior to the expiration of thirty (30) days from the date of this letter, The City of Cleveland shall pursue any and all rights and remedies under its loan agreements, promissory notes and open-end mortgages.

The City of Cleveland performed an on-site monitoring review of Cleveland New Homes LP, covering the contracts mentioned above.

On October 17, 2018, Michiel Wackers visited the offices of Millennia Housing Management at 3501 E 93rd Street in order to have access to tenant files. At the visit, you were unable to provide access to the financial information requested.

On October 17, 2018, Michiel Wackers requested in writing the financial information required for the monitoring and set a deadline of October 26, 2018. Incomplete information was provided on October 26, 2018. A subsequent request for clarification was sent on October 31, 2018 with a deadline of November 7, 2018. No response was provided to this request and efforts to reach you via email and phone were not successful.

The following is a list of Findings and Concerns resulting from the on-site visit on October 17, 2018 and subsequent information provided:

FINDING #1 Failure to duly pay and discharge all taxes.

Taxes - In reviewing the County Auditor Database, the total estimated delinquent unpaid tax bill on the projects is \$121,000.

Contracts require the following:

SECTION 34. PAYMENT OF TAXES

Borrower shall duly pay and discharge all taxes, assessments and governmental charges levied upon it or against its properties prior to the date on which penalties would attach, except that Borrower shall not be required to pay any tax, assessment or governmental charge which is being contested by it in good faith and by appropriate and timely proceedings, provided that Borrower provides prior written notice to City of that contest and proceeding.

The City has not received any information in writing that these outstanding taxes are contested. The City has also not received a response to the October 30, 2018 request for additional information regarding why there are outstanding taxes.

FINDING #1 Corrective Action:

Provide documentation of payment of taxes no later than February 15, 2019. When this action is complete, this Finding will be closed.

FINDING #2 Failure to comply with Uniform Administrative Requirements- Internal Controls.

FINDING #3 Failure to furnish City with reasonably requested records and information.

According to 2 CFR Part 200.62, adequate internal controls are required to ensure that "transactions are properly recorded and accounted for" and to ensure "funds, property and other assets are safeguarded against loss from unauthorized use or disposition".

The Cleveland New Homes LP 2018 2nd Quarter balance sheet indicates a decrease between December 2017 to June 2018 of \$207,297. During this same period, there was the creation of asset entry "A/R Buckeye Shaker Dev Corp".

Cleve New Homes LP
Balance Sheet
Year-To-Date Ending June 2018

ASSETS	June, 2018	December, 2017
Current Assets		
Petty Cash	100	100
Cash - Operating	2,341	209,638
Cash - Tenant Security Deposits	144	44,527
Tenant A/R	24,850	11,586
Subsidy A/R	-	1,668
Allowance for Bad Debt	(9,110)	(6,110)
A/R Tenant Charge back	2,149	2,149
A/R Other	5,775	5,670
A/R Buckeye Shaker Square Dev Corp	390,491	-
A/R Buckeye Area Dev	276,393	270,333
Total Current Assets	693,133	545,631

The City has not received any response to our October 30, 2018 request for more information regarding these two transactions.

REPORTING, RECORDS AND RIGHT TO INSPECT

Borrower shall furnish to HUD or to the City as reasonably requested in a form that is reasonable, statements, records, data and information pertaining to matters covered by this Agreement.

FINDING #2 & FINDING #3 Corrective Action:

Provide documentation for the above transactions, along with documentation to verify that adequate internal controls are in place, "transactions are properly recorded and accounted for" and "funds, property, and other assets are safeguarded against loss from unauthorized use or disposition". Submit this information no later than February 15, 2019. When this action is complete, this Finding will be closed.

FINDING #4 Failure to comply with Uniform Administrative Requirements- Internal Controls for Asset Management.

Three properties on your rent roll are listed as owned by other entities and not Cleveland New Homes:

- a. 9616 Sophia
- b. 10506 Crestwood
- c. 9716 Elizabeth

The City has not received any response to our October 30, 2018 request for more information about these two transactions. According to 2 CFR Part 200.62, adequate internal controls are required to “maintain accountability over assets” and to ensure “funds, property and other assets are safeguarded against loss from unauthorized use or disposition”.

FINDING #4 Corrective Action:

Provide documentation regarding the status of these properties no later than February 15, 2019. The City will review the documentation to determine if there is a violation of the Loan documents.

FINDING #5 : Cleveland New Homes LP lacks the capacity to operate the Projects in accordance with the Loan documents. The City of Cleveland has serious reservation concerning the capacity for your organization to comply with contract obligations, regulatory requirements, fiduciary compliance to carry out the intent of the Lease-Purchase objectives of the project known as Cleveland New Homes. As of the monitoring visit, none of the vacancies were rented to new tenants since the project transferred and no existing tenants were in the process or have purchased the units they reside in. Required financial documents were not available for inspection and questions about documents provided were not responded to.

FINDING #5 Corrective Action:

In order for the City to make a determination that Cleveland New Homes has the capacity to manage a Lease-Purchase Affordable Housing project, the following actions must be taken:

- Within the next thirty (30) days assess the physical needs of the rental units and prepare a plan on how these will be corrected in ninety (90) days.
- Within the next thirty (30) days prepare and implement a plan to address the vacant rental with the next year.
- Within the next thirty (30) days re-verify income for all rental tenants to determine compliance with HOME requirements.
- Within the next thirty (30) days determine which tenants are interested in purchasing rental units and collect necessary income documentation to determine eligibility.
- All financial obligations need to be addressed within thirty (30) days, including but not limited to payment of taxes and up-to-date financial reports and procurement of services to prepare audit documents for the next two years.

CONCERN #1 Failure to provide calculation for Depreciation of Project.

Staff was unable to determine if the method used to determine depreciation conformed with one of the allowable methods outlined in 2 CFR Part 200.436. Absent information this concern may be considered a finding in follow up communication.

Depreciation:	
Dep Exp - Buildings	325,282
Dep Exp - Building Improvements	4,469
Total Depreciation Expense	329,751

CONCERN #1 Corrective Action:

Provide documentation regarding method used to calculate depreciation, no later than January 15, 2019. City will determine if the method used is permitted.

As previously stated, this letter is notification of default under the Loan documents for the Buckeye Homes I and Buckeye Homes II Projects. Unless all Findings and Concerns and any additional items of default under the terms and conditions of the Loan documents are remedied within thirty (30), the City will enforce the Remedies permitted under the Loans.

If you have any questions, please contact Michiel Wackers, Assistant Director, at 216-664-4143.

Sincerely,



Tania Menesse
Director of Community Development

TM:pjm